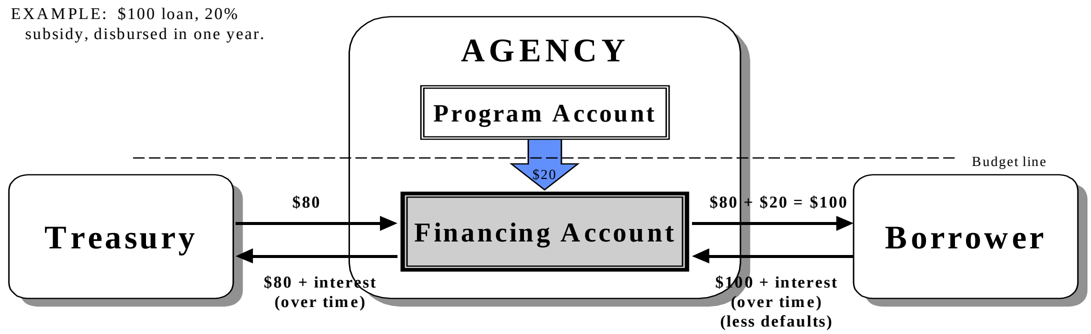
Credit Reform: Cash Flows for Direct Loans



1. The Congress appropriates $20 in subsidy budget authority to the **program account**.

2. The $20 subsidy is obligated when the $100 loan is obligated.

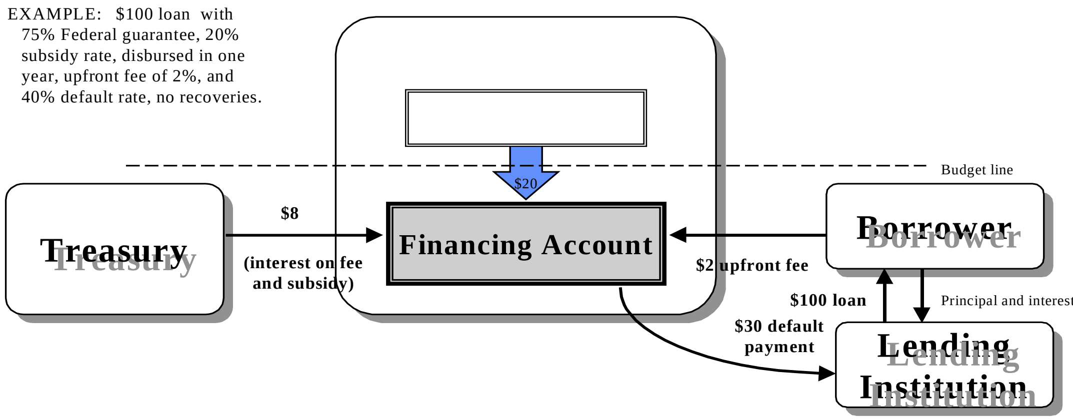
3. The $20 subsidy is outlayed to the **financing account** at the time the $100 loan is disbursed to borrower. Simultaneously, the **financing account** borrows the additional $80 from the **U.S. Treasury** need to make the $100 loan.

4. The **borrower** pays fees, interest, and principal to the **financing account** under the terms of the contract.

5. The **financing account** makes payments to the **U.S. Treasury** over time on the $80 of borrowing. If the subsidy rate is accurate, the loan repayments (and other payments) to the **financing account** will be exactly the amount necessary to repay the original **Treasury** borrowing ($80) plus interest.

6. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either (1) an additional subsidy shall be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (2) excess funds shall be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.

Credit Reform:
Cash Flows for Loan Guarantees



1. Congress appropriates $20 in subsidy budget authority to the **program account**.

2. The $20 subsidy is obligated when the $100 loan is obligated.

3. The **lending institution** lends a 75 percent government guaranteed $100 loan to the **borrower**. When the loan is disbursed, $20 in subsidy BA is outlayed to the **financing account**. The **borrower** pays a 2 percent upfront fee to the **agency**, which is deposited into the **financing account**.

4. Reserves (uninvested funds) are held in the **financing account** and earn interest.

5. The **borrower** pays principal and interest to the **lending institution**.

6. If the **borrower** defaults, the reserves held in the **financing account** are used to make claim payments to the **lending institution**. If the subsidy rate is accurate, the **financing account** will have exactly the reserves needed to cover all defaults and other subsidies for that cohort of loans.

7. If the subsidy is not accurate, a reestimate shall be made and, as necessary, either: (a) additional subsidy shall be disbursed from the **program account** to the **financing account** to cover the amount of the reestimate or (b) excess funds shall be moved from the **financing account** to a **negative receipt account**, where these funds are unavailable until appropriated.